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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF
GOLD CANYON SEWER COMPANY, AN
ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE OF
ITS UTILITY PLANT AND PROPERTY AND
FOR INCREASES IN ITS RATES AND
CHARGES FOR UTILITY SERVICE BASED
THEREON.

Docket No. SW-02519A-06-0015

Arizona Corporation Commission

DOCKETED

OCT 30 2006

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NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the
Testimony Summaries of William A. Rigsby, CRRA, and Rodney L. Moore, in the above-
referenced matter.

RESPECTFULLY SUBMITTED this 30th day of October, 2006.

Daniel W. Pozefsky
Attorney

1 AN ORIGINAL AND THIRTEEN COPIES
2 of the foregoing filed this 30th day
3 of October, 2006 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington
6 Phoenix, Arizona 85007

5 COPIES of the foregoing hand delivered/
6 mailed this 30th day of October, 2006 to:

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By 
Ernestine Gamble
Secretary to Daniel Pozefsky

**Gold Canyon Sewer Company
Docket No. SW-2519A-06-0015
Rate Application**

**SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY, CRRA
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE**

The following is a summary of the significant issues set forth in both the Direct and the Surrebuttal Testimony of RUCO witness William A. Rigsby, on Gold Canyon Sewer Company's ("Gold Canyon" or the "Company") application for a permanent rate increase. A full discussion of the cost of capital issues associated with Gold Canyon's request for rate relief and the underlying theory and rationales for Mr. Rigsby's recommendations are contained in the referenced documents. The significant issues associated with the case are as follows:

COST OF CAPITAL:

Capital Structure – Mr. Rigsby is recommending that the Commission adopt his hypothetical capital structure comprised of 40 percent debt and 60 percent common equity as opposed to the Company's capital structure comprised of 100 percent common equity. Mr. Rigsby's recommended hypothetical capital structure is heavier in equity than the average capital structure of his water company sample, which had an average capital structure comprised of approximately 50 percent debt and 50 percent equity.

Weighted Cost of Capital – Mr. Rigsby is recommending an 8.54 percent weighted cost of capital. Mr. Rigsby's recommended weighted cost of capital is

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY (Cont.)

based on the weighted hypothetical cost of debt and weighted cost of equity contained in his recommended capital structure for Gold Canyon.

Cost of Debt – Mr. Rigsby is recommending that the Commission adopt a hypothetical cost of debt of 8.45 percent. Mr. Rigsby's recommended 8.45 percent cost of debt is comprised of the 6.45 percent average of the weighted costs of long-term debt of eight publicly traded water utilities (followed by The Value Line Investment Survey) plus an additional 200 basis points.

Cost of Common Equity – Mr. Rigsby is recommending an 8.60 percent cost of common equity. Mr. Rigsby's 8.60 percent figure is based on the results of his cost of equity analysis, which used both the discounted cash flow ("DCF") and capital asset pricing model ("CAPM") methodologies. The data inputs for both of these models were obtained from the July 28, 2006 water industry update published by The Value Line Investment Survey.

Gold Canyon Sewer Company
Docket No. SW-02519A-06-0015
Rate Application

SUMMARY OF THE TESTIMONIES OF RODNEY L. MOORE
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

The following is a summary of the Direct and Surrebuttal Testimonies given by Rodney L. Moore applicable to RUCO's recommended conditions for a permanent rate increase. A full disclosure of the issues and conditions are contained in the referenced documents.

The Company and RUCO are in substantial agreement with the adjustments to:

- Accumulated Amortization Of CIAC;
- Accumulated Depreciation;
- Revenue Annualization;
- Annualization Of Purchased Power;
- Purchased Power – SRP Increase;
- Algonquin Water Services (“AWS”) Contract Billing; and
- Capitalization Of Test-Year Operating Expenses.

The testimonies of Mr. Moore address the following outstanding issues:

Rate Base

Deferred Income Tax – Mr Moore filed revised Surrebuttal Schedules to recognize the deferred income tax associated with its proposed removal of excess treatment plant capacity.

Excess Treatment Plant Capacity – Mr. Moore restates the test-year plant, accumulated depreciation, CIAC and the accumulated amortization of CIAC values to reflect RUCO's recommended disallowance of excess capacity in the wastewater treatment plant.

Allowance For Working Capital – Mr. Moore restates the allowance for working capital to reflect RUCO's recommended operating expenses.

Operating Income

Test-Year Depreciation Expense –The entire adjustment is driven by the disallowance of excess capacity in the wastewater treatment plant.

Property Tax Computation – Mr. Moore continues to advocate the appropriateness and superiority of the ADOR formula with historical inputs to accurately project future property taxes for ratemaking purposes. Mr. Moore asserts his testimonies demonstrate that RUCO's property tax arguments are correct and should be used in this and future cases.

Rate Case Expense – This adjustment is based on RUCO's determination of the fair and reasonable cost to Gold Canyon ratepayers for this rate case process.

Income Tax Expense – Mr. Moore's adjustment reflected income tax expenses calculated on RUCO's recommended revenues and expenses.

Rate Design

Mr. Moore's proposed rate design is generally consistent with the Company's present rate design, but reflects RUCO's recommended revenue requirement and provides proof the design will produce the appropriate revenue requirement.

Conclusions And Recommendations

Mr. Moore concludes that the approval of this application will be consistent with the public interest if the Commission adopts the following recommendations:

	<u>DIRECT TESTIMONY</u>	<u>REVISED SURREBUTTAL</u>
1. Percentage Increase In Average Typical Residential Customer's Monthly Bill	42.36%	42.51%

	<u>DIRECT TESTIMONY</u>	<u>REVISED SURREBUTTAL</u>
2. Recommended Revenue Requirement	\$3,536,964	\$3,540,758

	<u>DIRECT TESTIMONY</u>	<u>REVISED SURREBUTTAL</u>
3. Recommended OCRB/FVRB	\$13,368,387	\$13,983,602

DIRECT TESTIMONY

REVISED SURREBUTTAL

4. Recommended Required Operating Income

\$1,177,755

\$1,194,200

DIRECT TESTIMONY

REVISED SURREBUTTAL

5. Recommended Percentage Increase In Revenue Requirement

41.68%

41.84%